GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:678
ANSWERED ON:03.12.2004
CORPORATISATION OF STOCK EXCHANGE
Munshiram Shri

Will the Minister of FINANCE be pleased to state:

(a) whether the Government propose to corporatise Stock Exchanges;

(b) whether the Government propose to amend Securities Contract (Regulation) Act for this purpose;

(c) if so, the reasons therefor alongwith the details thereof;

(d) whether it is likely to affect the share market; and

(e) if so, the details thereof?

Answer

MINISTER OF STATE FOR FINANCE (SHRI SS. PALANIMANICKAM)

(a) & (b): Yes, Sir. To facilitate corporatisation and demutualisation of stock exchanges, Government has promulgated the Securities Laws (Amendment) Ordinance, 2004 on October 12, 2004; thereby amending the Securities Contracts (Regulation) Act, 1956.

(c) An imminent need for a structural reform of the stock exchanges in the country has arisen from the concerns that the present mutual organisational structure of stock exchanges has failed to address the conflict of interests inherent in such stock exchanges and is not conducive to good governance of stock exchanges.

The Joint Parliamentary Committee on the stock market scam and matters relating thereto, 2001 (JPC) had commented adversely on this situation and strongly recommended that the process of corporatisation and demutualisation of stock exchanges should be expedited to safeguard the interest of investors and to bring about greater transparency and efficiency of stock exchanges. The Government had assured both the Houses in its Action Taken Report that the required legislative changes to give effect to the said recommendation would be proposed.

Other reasons for proceeding with the corporatisation and demutualisation of stock exchanges in the country are:

(i) To cope with competition, stock exchanges require funds. While member-owned stock exchanges have limitations in raising funds, publicly owned corporatised and demutualised exchanges can tap capital markets.

(ii) Corporatised and demutualised exchanges can be more professional when compared to member-owned organisations.

The salient amendments made in the Securities Contracts (Regulation) Act, 1956, inter alia, include:-

(a) defining corporatisation and demutualisation;

(b) limiting the organisational form of a stock exchange to a corporate entity;

(c) specifying the procedure for corporatisation and demutualisation (including approval of scheme for corporatisation and demutualisation by the Securities and Exchange Board of India);

(d) specifying the time limit within which the shares shall be disinvested by stock brokers under the scheme of corporatisation and demutualisation:

(e) restricting the voting rights of brokers as shareholders, and brokers` participation on governing boards of stock exchanges so as to plug the loopholes inherent in governance of stock exchanges whose organisational form is mutual.

(d) & (e): Movements in the share markets are governed by various market forces, market sentiments and other factors. The impact of corporatisation and demutualisation of stock exchanges on the share markets cannot be isolated at this stage and it may not be

possible to comment on the effect of the same.